Preserving Critical Programs: Building Upon the Success of the 1991 State–Local Program Realignment

Faced with a multi-billion dollar budget shortfall in 1991, the State enacted State-Local Program Realignment involving a number of health and social services programs. The objectives of 1991 Realignment were to provide relief to the General Fund and improve program administration and service delivery.

The 1991 Realignment consisted of the following primary elements:

- Transferring responsibility for certain mental health, public health, and indigent health programs from the State to the counties.
- Revising the State-county cost-sharing ratios for the California Children's Services Program and several social services programs, including Child Welfare Services, In-Home Supportive Services, and County Administration for social services programs.
- Increasing the sales tax and revising the vehicle license fee depreciation schedule to generate revenues that were dedicated to counties in order for them to meet their increased responsibilities.

By most accounts, the 1991 Realignment has been successful with respect to allowing counties greater flexibility in program administration and service delivery so as to foster innovation, providing fiscal incentives to foster efficiency, and ensuring a dedicated revenue stream for reliable, relatively stable program funding.

Now faced with a $34.6 billion budget gap, the State has an opportunity to build upon the success of the 1991 Realignment. The 2003-04 Governor's Budget proposes a solution to close this shortfall, with almost 60 percent of the solution comprised of very difficult but necessary program cuts. However, the Budget also reflects the Administration's commitment to preserving certain critical programs by not reducing their funding levels, either transferring responsibility or changing the State-local cost-sharing ratios for them, and dedicating a revenue stream to support the resulting additional local financial obligations. The costs of the programs proposed to be realigned and the dedicated revenue stream, outlined below, total approximately $8.3 billion, and will result in estimated General Fund savings of $8.2 billion. Additional details about these realignment proposals are discussed later in this section.

Mental Health and Substance Abuse—Consistent with the realignment of community mental health programs in 1991, the Budget proposes to transfer responsibility for the Integrated Services for Homeless Adults and Children's Systems of Care programs from the State to the counties. Additionally, the Budget reflects the shift of alcohol and drug programs to the counties. The transfer of these programs to the counties will result in General Fund relief totaling $306 million.

Children and Youth—The Budget proposes to shift responsibility for the child care programs currently administered by the Department of Education to the counties, and transfer 100 percent of the nonfederal share-of-costs to the counties for the Child Welfare Services, Adoptions Assistance, and Foster Care programs. This will result in General Fund relief totaling $2.307 billion.

Healthy Communities—The Budget reflects the transfer of responsibility for certain health and social services programs to the counties as well as a 15 percent and 50 percent share-of-cost for Medi-Cal and CalWORKs-related programs, respectively, resulting in General Fund relief totaling $2.671 billion. Specific programs under this proposal include Expanded Access to Primary Care, Grants in Aid for Clinics, Indian Health, Rural Health Services Development, Seasonal Agricultural/Migratory Workers, Black Infant Health, Local Maternal and Child Health, Adolescent Family Life, County Health Managed Care, California Healthcare for Indigents, Rural Health Services, Public Health Subvention, Adult Protective Services, Cash Assistance Program for Immigrants, California Food Assistance, Medi-Cal, and CalWORKS.

Long-Term Care—The Budget shifts responsibility for 100 percent of the nonfederal share of In-Home Supportive Services program costs to the counties as well as 100 percent of the nonfederal share of Medi-Cal long-term care costs. This will result in General Fund relief totaling $2.571 billion.

Court Security—The Budget provides an alternative funding source to support the security needs of the local trial courts. This will result in General Fund relief totaling $300 million.

Dedicated Revenue Stream for Realignment—The Budget includes the following revenue increases totaling $8.334 billion to support the increased financial obligations for counties under realignment, provide an alternative funding source for court security, and backfill lost cigarette tax revenues ($96 million) resulting from the proposed cigarette excise tax increase that otherwise would be available pursuant to the provisions of Proposition 10, Proposition 99, and the Breast Cancer Fund program statute. Proceeds from these revenue increases will be deposited into the newly established Enhanced State and Local Realignment Fund.

◆ Increase sales tax rate by one cent	$4.584 billion
◆ Add 10 percent and 11 percent personal income tax brackets	2.580 billion
◆ Increase excise tax by $1.10 on cigarettes and other tobacco products	1.170 billion
Total:	$8.334 billion

Principles of State-Local Program Realignment

Consistent with the 1991 State-Local Program Realignment, the additional program realignment proposed in this Budget adheres to one or more of the following principles:

- Assignment of program responsibility should be made to the most appropriate level of government—State or local. Under this principle, programs that accrue primarily local benefits and result in cost savings to local governments should be administered locally.
- Assignment of program responsibility should be made to the governmental entity where the service is currently provided. Transfers of programs currently administered by the counties minimize implementation hurdles because program administration infrastructures already exist locally.
- Realignment should result in improved service delivery, with broad discretion given to the responsible entity. The entity responsible for defining eligibility and service levels is in the best position to foster innovation.
- Revising State-local sharing ratios and sharing the financial obligation for program costs should produce fiscal incentives to encourage the most cost-effective approaches for addressing program needs.
- Identified funding sources should accompany realigned programs to the responsible entity. A dedicated revenue stream provides greater funding stability with no reliance on annual legislative appropriations.

2003-04: A Year for Transition

For the 2003-04 fiscal year beginning July 1, 2003, allocations from the Enhanced State and Local Realignment Fund (Realignment Fund) to each county from the proceeds of the revenue increases proposed in this Budget will be based on the proposed level of funding for that county for each of the programs absent realignment to avoid program disruptions. However, effective beginning with the 2004-05 fiscal year, the Administration proposes that this county-by-county allocation be made pursuant to a single formula. The purpose of this is to allow counties to spend these revenues on any realigned program, thereby increasing local flexibility and improving local incentives to control costs.

Exceptions to the allocation methodology as described above include the following:

Medi-Cal—The allocation from the Realignment Fund for counties' 15 percent share-of-cost for Medi-Cal services and for long-term care will be made directly to the Department of Health Services.

Local Alcohol and Drug Programs—The allocation from the Realignment Fund for alcohol and drug programs will be made directly to counties. However, counties that wish to maintain federal funds received from the Substance Abuse Prevention and Treatment Block Grant would need to work with the Department of Alcohol and Drug Programs in order to fulfill maintenance-of-efforts requirements.

Court Security—A portion of the revenues generated from the proposed 1 cent sales tax increase equal to $300 million will be deposited into the Trial Court Trust Fund for allocation to the local trial courts to meet their security needs.

Additional funding sources, such as federal funds and Proposition 99 revenues, would continue to be available pursuant to current allocation formulas.

The Administration intends to work collaboratively with the Legislature to draft the necessary trailer bill legislation to implement the State-Local Program Realignment proposal effective July 1, 2003, once issues are resolved relating to revenue allocations, meeting State and federal requirements, allowing counties to shift funds among programs, and the nature of continuing State oversight of the realigned programs.

Mental Health and Substance Abuse Programs

The 1991 Realignment included the transfer of community-based mental health services, state hospital services for county patients, and the Institutions for Mental Diseases from the State to the counties. Community-based mental health services are administered by county mental health departments and include treatment, case management, and other services to adults and children with mental illness.

Since the 1991 Realignment, several programs have been established at the State level and administered locally to address the needs of adults and children with mental illness, including the Integrated Services for Homeless Adults and Children's System of Care programs. The 2003-04 Budget completes the 1991 mental health realignment by transferring responsibility for these two programs from the State to the counties.

Counties are currently administering these programs and thus can easily assume these program responsibilities. Additionally, consistent with the 1991 Realignment, counties would be given broad latitude to determine eligibility and service levels in these two programs.

The 2003-04 Budget also proposes to shift responsibility for alcohol and drug programs to the counties. Alcohol and drug programs are currently administered at the local level by counties and private providers, and under the proposed realignment, counties would have greater flexibility to prioritize local service needs and use program funds more effectively, such as blending funds for mental health and substance abuse programs to address the needs of persons dually diagnosed with mental illness and substance abuse problems.

The proposed realignment would continue the State's funding commitment as intended by Proposition 36, which requires substance abuse treatment services in lieu of incarceration for persons convicted of certain nonviolent drug possession charges. Furthermore, the amount of funding provided under realignment is sufficient to meet the maintenance-of-effort requirements for receipt of the federal Substance Abuse Prevention and Treatment Block Grant funds.

Children and Youth

The 1991 Realignment included changes to the state-local cost-sharing ratios for several social services programs to establish fiscal incentives that would encourage the most cost-effective approaches to service delivery. Changing the cost-sharing ratios also encourages counties to control costs and provide appropriate levels of service.

In 1991, the State-local cost-sharing ratio was revised for Child Welfare Services from 76 percent/24 percent to 70 percent/30 percent of nonfederal program costs. For Aid to Families with Dependent Children-Foster Care, the State-local cost-sharing ratio was changed from 95 percent/5 percent to 40 percent/60 percent; and for the Adoptions Assistance Program, the State-local ratio was revised from 100 percent/0 percent to 75 percent/25 percent.

The 2003-04 Budget proposes local assumption of 100 percent of the nonfederal program costs for the Foster Care, Child Welfare Services, and Adoptions Assistance Programs, and transfers the Child Abuse Prevention, Intervention, and Treatment Program to the counties. By doing so, counties will have an incentive to seek the most cost-effective approaches to serving foster children and children at risk of foster care placement. These programs are currently administered by the counties, and under the proposed realignment, the federal funds for these programs would still be available, and State oversight and monitoring would continue.

The 2003-04 Budget also proposes to shift responsibility for all subsidized child care programs currently under the auspices of the Department of Education to the counties. These programs include General Child Care, Alternative Payment Programs, CalWORKs Stage 2 and Stage 3 Child Care, and other programs such as the Resource and Referral, Quality Plan, Migrant, Latchkey, Campus Centers, and Handicap Programs. Shifting responsibility for subsidized child care will enable counties to work with local child care planning councils to set program rules relating to eligibility, family fees, and provider reimbursement, as well as pursue opportunities to work collaboratively with the Children and Families County Commissions on early childhood development initiatives.

Healthy Communities

The 1991 Realignment changed the State-local cost-sharing ratio for county administration of the Aid to Families with Dependent Children and Food Stamps programs from 50 percent/50 percent to 70 percent/30 percent of the nonfederal program costs. The 2003-04 Budget proposes a Healthy Communities realignment, whereby responsibility for several primary, maternal and child, and county health programs would be transferred to the counties, as well as 50 percent of the nonfederal program costs for CalWORKs-related programs such as CalWORKs Employment Services, CalLearn Services and Administration, CalWORKs Administration, Food Stamp Administration, and the Food Stamp Employment and Training Program. The Budget also reflects counties assuming 15 percent of the nonfederal costs for Medi-Cal services.

Service delivery for the health programs currently resides with the counties and/or local community-based organizations, and if locally administered, could result in improved service coordination. All of the CalWORKs-related programs are currently administered by the counties, and increasing the counties' share-of-cost will serve as an incentive for them to pursue the most cost-effective approaches to service delivery. Under this realignment proposal, federal funds and Proposition 99 funding would continue to be available for those programs currently receiving these funds.

Although counties in California do not currently pay a share of the Medi-Cal program costs, counties in several other states do participate in their states' Medicaid costs. Methods by which counties in other states participate vary as indicated in the following examples: in New York, counties pay 50 percent of the nonfederal share of services, excluding long-term care, for which they pay 10 percent; in Florida, counties pay $55 per month for each nursing home resident, and 35 percent of the nonfederal share for the 13th through 45th in-patient hospital days; and in Ohio, counties pay a maximum of 10 percent of the nonfederal share of administrative costs related to eligibility determination and 100 percent of special health services such as mental health and drug and alcohol services.

Long-Term Care

The 1991 Realignment revised the State-local cost-sharing ratio for the In-Home Supportive Services (IHSS) program from 97 percent/3 percent to 65 percent/35 percent. The 2003-04 Budget proposes a Long-Term Care realignment whereby counties would assume responsibility for 100 percent of the nonfederal share of program costs. In addition, the Budget proposes to shift the cost of nursing home stays under the Medi-Cal long-term care benefit to the counties.

The IHSS program is currently a county-administered program, and program costs have continued to increase as a result of caseload growth and provider wage increases. However, the Administration intends to work with the Legislature to provide funding flexibility for counties to meet their financial obligation under the IHSS program by, among other things, allowing the transfer of funds among realignment programs.

Realigning Medi-Cal long-term care to the counties maintains existing services to long-term care beneficiaries and does not reduce services or eliminate eligibility—options that would have to be considered if responsibility for supporting this benefit remained with the State General Fund.

State oversight of these two programs would continue under the realignment proposal. Additionally, the State would maintain responsibility for federally mandated benefits, such as pharmacy, for eligible persons residing in long-term care facilities.

Court Security

The 2003-04 Budget provides an alternative funding source for security of local trial courts, which is currently supported by the State General Fund. Local trial courts enter into contracts, primarily with county sheriffs' departments, to meet their perimeter and courtroom security needs. Each year, the costs of most of these contracts have increased to reflect salary and benefit increases for local sheriff deputies.

Under this proposal, a portion of the proceeds from the sales tax increase would be deposited into the Trial Court Trust Fund for allocation to the local trial courts to meet their security needs. Additionally, the Administration, with the objective of containing costs, proposes legislation to provide the trial courts with flexibility to meet their security needs through contracts either with the local county sheriff's department or the local police department, or a combination of these entities, as appropriate.

Figure A

State-Local Realignment

(Dollars in Millions)

Department	Program	GF Savings	Cost to Counties
Mental Health and Substance Abuse			
DADP	Local Programs	$219	$219
DADP	Drug Courts/State Operations	12	11
DMH	Children's System of Care/State Operations	20	20
DMH	Integrated Services For Homeless/State Operations	55	55
	Mental Health and Substance Abuse Total	$306	$305
Children and Youth			
DSS	Child Abuse Prevention, Intervention, and Treatment	$13	$13
DSS	Foster Care Grants	460	460
DSS	Foster Care Administration	34	34
DSS	Child Welfare Services	596	596
DSS	Adoption Assistance	217	217
DSS	Kin-GAP	19	19
SDE	Child Care	968	1,031
	Children and Youth Total	$2,307	$2,370
Healthy Communities			
DHS	15 Percent County Share of Medi-Cal Benefits Costs	$1,620	$1,620
DHS	Adolescent Family Life Program	14	14
DHS	Black Infant Health Program	4	4
DHS	Local Health Department Maternal and Child Health (MCH) Program	3	3
DHS	Expanded Access to Primary Care (EAPC)	24	24
DHS	Indian Health Program (IHP)	7	7
DHS	Rural Health Services Development Program (RHSD) and Grants in Aid (GIA) for Clinics Program	9	9
DHS	Seasonal Agricultural and Migratory Workers (SAMW) Program	7	7
DHS	Managed Care Counties		(0.9)
DHS	California Health Care for Indigents (CHIP)		(46.2)
DHS	Rural Health Services		(4.4)
DHS	County Health Services Public Health Subvention	1	1
DHS	Reductions to Rural Health Care and MCH State Operations	2	
DSS	Cash Assistance Program for Immigrants	95	95
DSS	Adult Protective Services	61	61
DSS	California Food Assistance Program	15	15
DSS	Food Stamp Administration	268	268
DSS	CalWORKs Administration	120	120
DSS	CalWORKs Employment Services	423	423
	Cost of Prop 99-funded Programs		58
	Healthy Communities Total	$2,671	$2,727
Long-Term Care			
DHS	Realign Medi-Cal Long-Term Care	$1,400	$1,400
DSS	In-Home Supportive Services	1,086	1,086
DSS	In-Home Supportive Services Administration	85	85
	Long-Term Care Total	$2,571	$2,571
Court Security			
Trial Courts	Court Security	$300	$300
	Total Realignment	$8,154	$8,273